



Department of State

EXCISE

TELEGRAM

SECRET 759

PAGE 01 TRIPOLI 00692 01 OF 02 031410Z

59:
ACTION E-15

INFO: OCT-01 AF-12 EUR-20 AID-28 NSC-10 RSC-01 SS-20 STR-08

CIAE-00 COM-08 FRB-02 INR-08 NSAE-00 TRSE-00 XMB-06

OPIC-12 TRSY-11 CIEP-01 CEA-02 L-04 H-02 P-09 PRS-01

USA-12 OEP-01 JUS-02 INT-06 IO-13 RSR-01 /240 W
077161

P 031232Z APR 71
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 7605:
INFO AMEMBASSY BENGHAZI PRIORITY
AMEMBASSY LONDON

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY cf DATE 6/22/81

PORTIONS DENIED AS INDICATED

SECRET SECTION 1 OF 2 TRIPOLI 692

SUBJECT : OIL AGREEMENT SIGNED WITH LIBYA.

REFERENCE: LONDON 2959 NU

1. ACTUAL SIGNING OF LONG-AWAITED OIL AGREEMENT BEGAN 2100 GMT APRIL 2 AND CONTINUED PAST MIDNIGHT. AS INDICATED REFTEL TWO SIDES AGREED UPON 2 CENT ADDITION TO BASIC POSTING OF \$3.05 (ESTABLISHED IN MARCH 20 MEETINGS BETWEEN JALLUD AND MOBIL/SELSENBERG) AS BUY-OUT OF LARG DEMAND FOR RETROACTIVE SUEZ CREDIT. COMPANIES EFFORT TO MAINTAIN TOTAL POSTING AT PREVIOUSLY AGREED LEVEL BY SHIFTING TWO CENTS FROM TEMPORARY TO PERMANENT ELEMENT WAS NON-STATE. SIMILARLY, LARG INSISTED UPON MARCH 20 AS EFFECTIVE DATE OF AGREEMENT, BUT AGREED ALSO TO BACKDATE TO MARCH 20 DECREE IMPLEMENTING 55 PER CENT TAX RATE. THESE DETAILS WERE SETTLED EVENING OF APRIL 1. ON APRIL 2, DEAL WAS ALMOST UPSET AGAIN WHEN MABRUK RAISED 10 CENT "SECURITY ALLOWANCE" INCLUDED IN LARG'S ORIGINAL LIST OF DEMANDS. HOWEVER, STRONG AND APPARENTLY CONVINCING REACTION FORCED MABRUK TO DROP THIS NASCENT ATTEMPT FOR YET ANOTHER FEW CENTS, AND DOCUMENTS COMPLETED AND SIGNED WITHOUT FURTHER INCIDENT. LARG ANNOUNCED SIGNING ON EVENING NEWSCASTS APRIL 2.

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Department of State

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TELEGRAM

SECRET

PAGE 02. TRIPOLI 00692. 01 OF 02 031410Z

2. IN SPEECH TO COMPANY MANAGERS AT SIGNING CEREMONY [REDACTED] JALLUD EXPRESSED SATISFACTION WITH AGREEMENT AND DESCRIBED IT AS NEW BASIS FOR MUTUAL CONFIDENCE AND FOR COOPERATION. HW SAID LARG WOULD LIVE UP TO ITS COMMITMENTS AND THERE WOULD BE NO ATTEMPT AT LEARN FROGGING. HE TOLD MANAGERS THAT WITH PROBLEMS OF PAST NOW SOLVED, COMPANIES SHOULD BRING TO HIS ATTENTION ANY DIFFICULTIES THEY ENCOUNTER IN THEIR OPERATIONS AND HE WOULD ASSIST WITH FINDING SOLUTION. JALLUD CONCLUDED BY EMPHASIZING LARG'S INTEREST IN IMPROVING ITS IMAGE ABROAD AS AREA FOR INVESTMENT. HE SAID HE HOPED THAT COMPANIES WOULD TELL TRUTH ABOUT THEIR RELATIONSHIPS WITH LARG UNDER NEW AGREEMENT AND WOULD BECOME GOOD AMBASSADORS FOR TIBYA. B4

3. OUTLINE OF FIVE-YEAR AGREEMENT FOLLOWS:

I. POSTED PRICE (FOR 40 DEGREE CRUDE)

BASIC POSTING	\$3.070
FIRST YEAR ESCALATION	.127
FIXED POSTING FOR 1971	3.197
SUEZ ALLOWANCE	.120
FREIGHT ALLOWANCE (TIED TO AFRA)	.130

POSTING AS OF 3/20/71

\$3.447

II. TAX RATE: 55 PER CENT.

III. ESCALATION FACTORS:

A) INFLATION - TWO AND ONE-HALF PER CENT PLUS FIVE CENTS ANNUALLY BEGINNING JANUARY 1973.

B. SULFUR - TWO CENTS ANNUALLY BEGINNING JANUARY 1972.

IV. PAST CLAIMS:

A) LARG ACCEPTS AGREED SCHEDULE OF PAYMENTS AS FULL SATISFACTION OF ALL PAST CLAIMS.

B) COMPANIES AGREE TO CONVERT VARYING SURTAX LIABILITIES CONTRACTED IN 19UP AGREEMENT BECAUSE OF PRICE RETROACTIVITY.

SECRET

27



Department of State
TELEGRAM

SECRET

PAGE 03 TRIPOL 00692 01 OF 02 031410Z

TO: SURCHARGE, WHICH ALSO IS TO BE EFFECTIVE FOR LIFE OF CONCESSIONS.

V. PAYMENTS: TAXES AND ROYALTIES ARE TO BE PAID IN MINT FOLLOWING CLOSE OF EACH QUARTER, WITH FIRST QUARTERLY PAYMENT TO BE MADE IN APRIL 1971.

VI. REINVESTMENT: EACH OPERATING GROUP IS TO CONDUCT 12 MONTHS OF EXPLORATORY DRILLING OR, IF EXPLORATION PROGS. DO NOT JUSTIFY DRILLING, MAKE FINANCIALLY COMPARABLE INVESTMENT IN GAS CONSERVATION OR UTILIZATION.

VII. COVERAGE: ALL COMPANIES CURRENTLY PRODUCING IN LIBYA HAVE SIGNED AGREEMENT, EXCEPT:

A) AMOCO AND AQUITAINE/ELF/ERAP, WHO DID NOT JOIN INDUSTRY GROUP AND HAVE NOT YET DISCUSSED NEW FINANCIAL ARRANGEMENTS WITH LARG.

B) HISPANOIL AND MURPHY, BECAUSE THEY ARE UNABLE TO MAKE REINVESTMENT COMMITMENT PART OF AGREEMENT (AS LARG INSISTS) WITHOUT APPROVAL OF THEIR PARTNERS. AQUITAINE/AUXIRAP. PRESUMABLY, NEGOTIATIONS WILL OPEN SHORTLY WITH MEMBERS OF THIS GROUP.

4. COMMENT: IN GAUGING HOW WELL OR HOW POORLY OIL INDUSTRY HAS DONE IN LATEST ROUND IN LIBYA, STARTING POINTS OF BOTH SIDES ARE USEFUL GUIDE. LARG'S OPENING DEMAND WAS FOR FIXED POSTING OF \$3.75; INDUSTRY'S BASIC COUNTER WAS OFFER OF \$1.90. GIVEN VARIABLE FACTORS, DIRECT COMPARISON IS IMPOSSIBLE BUT TWO SIDES CAME TO AGREEMENT SOMEWHERE NEAR MID-POINT - NOT ONLY ON QUESTION OF PRICE BUT ON OTHER ISSUES

SECRET

27



Department of State

TELEGRAM

TELEGRAM

SECRET 193:

PAGE 01 TRIPOLI 0692 02 OF 02 050952Z

21
ACTION E-15:

INFO OCT-01 AF-12 EUR-20 AID-28 NSCL-10 RSC-01 SS-20 STR-08:

CIAE-00 COM-08 FRB-02 INR-08 NSAE-00 TRSEL-00 XMB-06

OPIC-12 TRSY-11 CIEP-01 CEA-02 L-04 H-02 P-03 PRS-01

USIA-12 OEP-01 JUS-02 INT-06 IO-13 RSR-01 /210 WI
083589:

P 031232Z APR 71
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 7606
INFO AMEMBASSY BENGHAZI PRIORITY
AMEMBASSY LONDON

SECRET SECTION 2 OF 2 TRIPOLI 0692:
AS WELL, COST, OF COURSE, HAS BEEN SUBSTANTIAL -- SOME
INDUSTRY REPS SAY TOO HIGH FOR LIBYA TO REMAIN COMPETITIVE
WITH PERSIAN GULF CRUDE AS TRANSPORTATION SHORTAGE EASES.
EMBASSY ESTIMATES LARG TAKE IN ROYALTY AND TAXES UNDER NEW
AGREEMENT FOR REMAINDER OF 1971 AT \$1.94 PER BARREL. WHILE
MEDIAN FIGURE IS DIFFICULT TO DETERMINE, WE ESTIMATE NEW
SURCHARGE WILL NET LARG ABOUT ADDITIONAL EIGHT CENTS PER
BARREL, FOR TOTAL INCOME OF SLIGHTLY OVER TWO DOLLARS
PER BARREL. THIS COMPARES WITH PER BARREL INCOME OF ONE
DOLLAR FOR 1969. ASSUMING OPERATING COSTS OF 28 CENTS,
LIBYAN CRUDE WILL COST COMPANIES AVERAGE OF ABOUT \$2.30 --
AT LEAST UNTIL FREIGHT RATES DECLINE AND LIBYAN POSTING IS
ADJUSTED DOWNWARD.

5. AFTER AGREEING, OVER PAST FIFTEEN MONTHS, TO DOUBLE
THEIR RATE OF PAYMENTS AND SUBMIT TO SERIES OF NEW LARGE
CONTROLS, COMPANIES SEEM, AT LAST, TO HAVE SECURED BEST
OBTAINABLE GUARANTEE OF PERIOD OF FINANCIAL STABILITY. HOW-
EVER, IF INITIAL REACTION TO SIZE OF SETTLEMENT IN LIBYA
IS CORRECT AND LIBYAN CRUDE DOES BECOME OVERPRICED RELA-
TIVE TO PERSIAN GULF, WE WOULD EXPECT FUTURE PRESSURE FROM
PRODUCERS FOR UPWARD REVISION OF GULF PRICES, RATHER THAN
DECREASE IN BASIC LIBYAN POSTING. CERTAINLY, LARG WOULD

SECRET

PCT 14 LIBYA



Department of State **TELEGRAM**

SECRET

PAGE 02 TRIPOL 09692 02 OF 02 050952Z

RESIST ANY EROSION OF ITS PRICE STRUCTURE

AT THIS EARLY DATE, FAILURE TO FIX REALISTIC RELATIONSHIP BETWEEN MEDITERRANEAN AND GULF OIL PRICES SEEMS TO US TO BE MAJOR FLAW IN CURRENT ROUND AND POTENTIAL SOURCE OF FUTURE TROUBLE. GP-2.
PALMER

51

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